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SUBJECT: SHANGHAI COFCOM DG: SHANGHAI'S ECONOMY ON SOLID GROUND, BUT
TRADE FALLING, CONCERNS INCREASING

REF: SHANGHAI 477

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¶1. (SBU) Summary: During a courtesy call with Shanghai Municipal Commission of Commerce (Shanghai COFCOM) Director General Sha Hailin, the Consul General discussed a wide range of economic and business-related issues, including Shanghai's response to the financial crisis, the city's long-term plans, concerns about foreign express delivery services, the growing number of business disputes involving U.S. businesses, and the October 23 Municipal Government restructuring. Sha said the economic fundamentals of the city are still "sound," but import/export companies are being adversely impacted. He added that it is in both sides' "mutual interest" to receive prior notification of any U.S.-invested factory shutdowns for reasons of social stability. Shanghai is on the path to becoming a service-based economy, but is still unsure of its way to becoming an international trade center. Sha was unaware of potential liabilities for foreign express delivery services created by the draft Postal Law; however, he would welcome more information on the matter. He also noted that municipal-level reforms creating Shanghai COFCOM are a reflection of national level reforms. End Summary.

Focus on Containing Financial Crisis

¶2. (SBU) Sha told the CG during her December 18 introductory meeting that the new Shanghai COFCOM's main focus is the global financial crisis and how to mitigate its effect on Shanghai's economy. Shanghai's economic fundamentals are still healthy - from January through November 2008, Shanghai's contracted FDI was USD 17 billion and realized FDI was USD 10 billion, both highest on record since 1997. The main issue now is falling export orders. Shanghai's exports dropped five percent from October to November. Sha predicted that the first quarter of 2009 would be "difficult" for Shanghai. Shanghai firms dependent on imports and export are not only having difficulty with slumping business, but they are also having difficulty raising capital. As a result, import/export companies are under pressure to lay off employees. Sha emphasized that it is in "our mutual interests" for reasons of social stability and the

reputation of companies involved for the Consulate and the Shanghai government to receive prior notifications of any production stoppages or factory closures at U.S.-invested companies in Shanghai. Another difficulty Shanghai faces is declining tax revenue; from October to November, Shanghai tax revenue fell by ten percent.

13. (SBU) Sha said Shanghai is streamlining policies to assist struggling companies, in response to the financial crisis. In total, Shanghai is implementing 36 measures to create a better business environment. Some of the 36 policies are in the hands of the Central Government and cannot be changed immediately. However, those Shanghai can change are quickly being put into effect. According to Sha, Beijing is also showing a great deal of interest in Shanghai's economic conditions. In succession, Premier Wen Jiabao and Vice Premier Li Keqiang each recently visited Shanghai to study the state of the city's economy. Shanghai officials will also participate in a December 23 and 24 Ministry of Commerce (MOFCOM) conference, which will outline 2009 plans for how to deal with the economic crisis. Sha opined that in the short-term, the government can and will intervene to help alleviate the financial crisis, but in the long-run the problems should be solved by the market itself.

14. (SBU) Shanghai is relying on three measures, Sha said, to deal with the crisis: boosting trade, spurring domestic demand, and attracting additional investment. To increase domestic demand, the property market must be stabilized. Once stabilized, it will be "the most powerful driver" of domestic demand. Shanghai has a number of incentives to boost its property market. Other mechanisms the city is using to support the economy include "investments, utilities and social programs."

Shanghai's Long-Term Priority Is to Become a "Service City"

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15. (SBU) According to Sha, Shanghai's second priority is to how to build the city's service-based economy. Although this is a long-term priority, Shanghai will become a "service-based city." While city leaders are still mindful of Shanghai's manufacturing sectors, such as in the automotive, petrochemical, shipbuilding and aircraft industries, they know what direction the city's economic development should take: services are the city's future. Sha acknowledged that although Shanghai has already plotted paths to become a world financial and international shipping center, it still "does not have a clear path" how it will reach its goal of becoming an international trade center.

Response on Express Delivery Service Concerns

16. (SBU) The CG noted concerns that the draft Postal Law now before the National People's Congress could potentially harm U.S. express delivery services if enacted in its present form. Sha responded that he was unfamiliar with those draft provisions, but promised to read and reflect on the points that the CG provided on the issue. Shanghai COFCOM's Deputy Director of the Europe and America Business Office Shen Qing interjected and (incorrectly) remarked that the issue is solely about "foreign express delivery companies trying to get involved in domestic delivery, which is not allowed." The CG responded that the issue is complex and could affect Shanghai's business environment. (Note: The Consulate raised the issue in order to ensure local authorities are aware of the potential negative impact for U.S. companies and competition in their own markets. East China is home to major distribution centers for both FedEx and UPS. In seeking to raise the issue at higher levels, however, the Consulate has met some resistance. The Shanghai Foreign Affairs Office rejected a mid-December request by the Consul General to meet Executive Vice Mayor Yang Xiong about the draft Postal Law, on the grounds that it would be inappropriate to "discuss" a draft law under consideration by the NPC. End

Note.)

¶7. (SBU) The Consul General also raised the issue of allowing express delivery company vehicles in downtown Shanghai during the day time. (Note: Shanghai, like many large cities in China, limits truck and commercial vehicle access to urban areas during the day. Consequently, express and small parcel delivery companies make urban deliveries in "passenger" cars and vans, not in registered commercial vehicles. End note.) Sha was interested in finding out more about the issue and appears genuinely eager to assist. He would welcome more information about the issue from the Consulate.

An Increasing Number of U.S. Business Disputes in Shanghai

¶8. (SBU) The CG noted that the Consulate has been seeing an increasing number of business disputes involving U.S. companies in Shanghai, and the Consulate would like to work with the city to resolve the disputes early, before they become too big. She also recognized that Shanghai is a leader on intellectual property rights protection in China and welcomed continued work with Shanghai on this important issue. Sha replied that Shanghai is committed to "the path of reform and economic openness." He added that particularly because foreign invested companies may feel they are in a precarious situation with the financial crisis, Shanghai is committed to helping foreign firms settle business disputes as expeditiously as possible. Sha emphasized that Shanghai wants to maintain close contact with the U.S. business community and welcomes a friendly, frank and constructive dialogue with the Consulate in resolving business disputes.

COFCOM Formation Reflects Changes in Beijing

¶9. (SBU) Sha said the local government reforms that created the Shanghai Municipal Commission of Commerce were a reflection of recent national level reforms. (Note: Shanghai established the new government entity and appointed Sha as the Director General on October 23. End note.) As with the reforms at the national level, the municipal-level changes included consolidating some government functions under Shanghai COFCOM's umbrella, merging others into separate agencies, and abolishing of some functions

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or agencies all together. (Reftel reports further on the Shanghai Municipal Government reorganization.) According to Sha, these changes are necessary so that the Municipal Government agencies parallel the Central Government in structure and responsibilities. The newly formed Shanghai COFCOM oversees four main functions - foreign trade, foreign direct investment (FDI), outbound economic cooperation, and domestic business development. The Shanghai Foreign Economic Relation and Trade Commission (SMERT) and the Shanghai Economic Commission have both been absorbed into the new Shanghai COFCOM.
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